

Enero Group Limited and Controlled Entities
ABN 97 091 524 515

Preliminary Final Report

Appendix 4E

Year ended 30 June 2015

Enero Group Limited

Preliminary Final Report - year ended 30 June 2015

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Results for announcement to the market

Enero Group Limited (the “Company”) and its controlled entities (the “Group”) results for announcement to the market are detailed below.

The current reporting period is 1 July 2014 to 30 June 2015.

The previous corresponding reporting period is 1 July 2013 to 30 June 2014.

Key information

In thousands of AUD

	30 June 2015	30 June 2014	% Change	Amount Change
Gross revenues from ordinary activities	212,332	212,623	(0.14%)	(291)
Loss after tax attributable to members	(2,787)	(2,912)	4.29%	125
Loss for the period attributable to members	(2,787)	(2,912)	4.29%	125

Dividends	Amount per security	Franked amount per security
-	-	-

At the date of this report, there are no dividend reinvestment plans in operation.

Additional Information

	Current period	Previous corresponding period
Net tangible asset backing per ordinary share	0.38	0.32

Explanation of results

The information requiring disclosures to comply with listing rule 4.3A is contained in this report.

Summary of key results:

Reconciliation of Operating EBITDA to Loss after tax:

In thousands of AUD	2015	2014
Net Revenue	110,347	119,493
Operating EBITDA	9,202	8,972
Depreciation and amortisation expenses	(4,225)	(4,791)
Net finance income/(costs)	65	(44)
Commercial settlement	-	(1,150)
Restructure costs	(1,667)	(1,717)
Loss on deregistration/disposal of subsidiaries (i)	(2,644)	(68)
Profit before tax	731	1,202
Income tax expense	(2,346)	(2,655)
Loss after tax	(1,615)	(1,453)

- (i) During the current reporting period, the Group deregistered a number of dormant subsidiaries. Loss on deregistration of subsidiaries represents foreign currency translation reserve transferred to income statement at the time of deregistration of foreign subsidiaries.

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Basis of preparation

This report includes Operating EBITDA, a measure used by the directors and management in assessing the on-going performance of the Group. Operating EBITDA is a non-IFRS measure and has not been audited or reviewed.

Operating EBITDA is calculated as net profit excluding net finance income/(costs), income taxes, depreciation, amortisation, loss on disposal of subsidiaries, impairment, commercial settlement and restructuring costs. Operating EBITDA, which is reconciled above is the primary measure used by management and the directors in assessing the performance of the Group. It provides information on the Group's cash flow generation excluding significant transactions and non-cash items which are not representative of the Group's on-going operations.

Operating performance

The Group consists of 11 marketing and communication services business across 8 countries with more than 550 employees. The Group's service offering includes public relations, advertising, direct marketing, communications strategy and planning, research and data analytics, stakeholder communications and search marketing.

The Group has three key hubs - Sydney, London and New York – which house the majority of the Group's businesses and employees.

The Group achieved an increase in Operating EBITDA of 2% to \$9.2m, despite an 8% decline in net revenue. The Operating EBITDA margin increased to 8.3% as compared to 7.5% in the prior year. 60% of the Group's Operating EBITDA is generated from international markets.

The increased Operating EBITDA and margin was attributable to:

- Reductions to cost base across a number of Operating Brands and focus on benchmark ratios to measure the Operating Brands against;
- New business wins across the Operating Brands despite the overall reduction in Net Revenue; and
- Continuing to leverage of group assets to service client needs with integration of key skill and resources across Operating Brands.

The weaker Australian dollar during the financial year resulted in an uplift in Australian dollar reported net revenue of \$3.5m and Operating EBITDA of \$0.6m.

Deregistration of dormant subsidiaries

During the year, the Group deregistered a number of dormant subsidiaries. The loss on deregistration of subsidiaries represents foreign currency translation reserves transferred to the income statement at the time of deregistration of the subsidiaries. This charge was a non-cash item in the income statement.

Events subsequent to year end reporting date

There has not arisen, in the interval between the end of the interim period and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in the future financial years.

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Consolidated income statement for the year ended 30 June 2015

In thousands of AUD	Note	2015	2014
Gross revenue		212,332	212,623
Directly attributable costs of sales		(101,985)	(93,130)
Net revenue		110,347	119,493
Other income		206	378
Employee expenses		(81,070)	(89,995)
Occupancy costs		(8,345)	(8,622)
Travel expenses		(2,034)	(2,530)
Communication expenses		(2,184)	(2,285)
Compliance expenses		(2,114)	(2,357)
Depreciation and amortisation expense		(4,225)	(4,791)
Administration expenses		(7,271)	(6,827)
Commercial settlement		–	(1,150)
Loss on disposal of subsidiaries		(2,644)	(68)
Net finance income/(costs)		65	(44)
Profit before income tax		731	1,202
Income tax expense	3	(2,346)	(2,655)
Loss for the year		(1,615)	(1,453)
Attributable to:			
Equity holders of the parent		(2,787)	(2,912)
Non-controlling interests		1,172	1,459
		(1,615)	(1,453)
Earnings per share			
Basic earnings per share (AUD cents)	4	(3.4)	(3.6)
Diluted earnings per share (AUD cents)	4	(3.4)	(3.8)

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Consolidated statement of comprehensive income for the year ended 30 June 2015

In thousands of AUD	Note	2015	2014
Loss for the year		(1,615)	(1,453)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		11,206	5,298
Reclassification of foreign currency differences on disposal of subsidiaries		2,585	–
Total items that may be reclassified subsequently to profit or loss		13,791	5,298
Other comprehensive income for the year, net of tax		13,791	5,298
Total comprehensive income for the year		12,176	3,845
Attributable to:			
Equity holders of the parent		10,671	2,430
Non-controlling interests		1,505	1,415
		12,176	3,845

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Consolidated statement of changes in equity for the year ended 30 June 2015

In thousands of AUD	Attributable to owners of the Company						Non-controlling interests	Total equity
	Note	Share capital	Accumulated losses	Option reserve	Reserve change in ownership interest in subsidiary	Foreign currency translation reserve		
Opening balance at 1 July 2013		489,792	(377,916)	13,862	(883)	(27,135)	1,418	99,138
Profit/(loss) for the year		-	(2,912)	-	-	-	1,459	(1,453)
Other comprehensive income for the year net of tax		-	-	-	-	5,342	(44)	5,298
Total comprehensive income for the year		-	(2,912)	-	-	5,342	1,415	3,845
Transactions with owners recorded directly in equity:								
Shares issued as part of business combinations		38	-	-	-	-	-	38
Dividends paid to equity holders		-	-	-	-	-	(969)	(969)
Share based payment expense		-	-	1,453	-	-	-	1,453
Changes in ownership interests in subsidiaries:								
Disposal of non-controlling interests without a change in control		-	-	-	(234)	-	234	-
Shares issued to non-controlling interests in controlled entities		-	-	(96)	-	-	96	-
Closing balance at 30 June 2014		489,830	(380,828)	15,219	(1,117)	(21,793)	2,194	103,505
Opening balance at 1 July 2014		489,830	(380,828)	15,219	(1,117)	(21,793)	2,194	103,505
Profit/(loss) for the year		-	(2,787)	-	-	-	1,172	(1,615)
Other comprehensive income for the year net of tax		-	-	-	-	13,458	333	13,791
Total comprehensive income for the year		-	(2,787)	-	-	13,458	1,505	12,176
Transactions with owners recorded directly in equity:								
Shares issued to employees on exercise of Share Appreciation Rights		1,679	-	(1,679)	-	-	-	-
Dividends paid to equity holders		-	-	-	-	-	(1,284)	(1,284)
Share based payment expense		-	-	1,121	-	-	-	1,121
Changes in ownership interests in subsidiaries:								
Disposal of non-controlling interests without a change in control		-	-	-	(300)	-	300	-
Shares issued to non-controlling interests in controlled entities		-	-	(109)	-	-	109	-
Closing balance at 30 June 2015		491,509	(383,615)	14,552	(1,417)	(8,335)	2,824	115,518

Notes on pages 9 to 15 are an integral part of this preliminary final report.

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Consolidated statement of financial position as at 30 June 2015

In thousands of AUD	Note	2015	2014
Assets			
Cash and cash equivalents		25,812	22,513
Trade and other receivables		27,852	26,542
Other assets		4,335	4,905
Income tax receivable		273	263
Total current assets		58,272	54,223
Receivables		21	50
Deferred tax assets		1,887	2,546
Plant and equipment		7,034	7,240
Other assets		427	750
Intangible assets	5	84,545	76,697
Total non-current assets		93,914	87,283
Total assets		152,186	141,506
Liabilities			
Trade and other payables		31,561	30,467
Interest-bearing loans and borrowings		27	1,658
Employee benefits		2,356	2,826
Income tax payable		748	713
Provisions		220	633
Total current liabilities		34,912	36,297
Interest-bearing loans and borrowings		–	24
Employee benefits		480	522
Provisions		1,276	1,158
Total non-current liabilities		1,756	1,704
Total liabilities		36,668	38,001
Net assets		115,518	103,505
Equity			
Issued capital		491,509	489,830
Reserves		4,800	(7,691)
Accumulated losses		(383,615)	(380,828)
Total equity attributable to equity holders of the parent		112,694	101,311
Non-controlling interests		2,824	2,194
Total equity		115,518	103,505

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Consolidated statement of cash flows for the year ended 30 June 2015

In thousands of AUD	Note	2015	2014
Cash flows from operating activities			
Cash receipts from customers		236,667	240,131
Cash paid to suppliers and employees		(228,043)	(230,577)
Cash generated from operations		8,624	9,554
Interest received		237	261
Income taxes paid		(1,696)	(1,782)
Interest paid		(172)	(305)
Cash paid for commercial settlement		–	(1,150)
Net cash from operating activities		6,993	6,578
Cash flows from investing activities			
Proceeds from disposal of non-current assets		10	80
Payments of deferred consideration		–	(66)
Acquisition of plant and equipment		(2,635)	(1,903)
Net cash used in investing activities		(2,625)	(1,889)
Cash flows from financing activities			
Finance lease payments		(1,726)	(924)
Dividends paid to non-controlling interests in controlled entities		(1,284)	(969)
Net cash used in financing activities		(3,010)	(1,893)
Net increase in cash and cash equivalents		1,358	2,796
Effect of exchange rate fluctuations on cash held		1,941	291
Cash and cash equivalents at 1 July		22,513	19,426
Cash and cash equivalents at 30 June		25,812	22,513

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Notes to the preliminary final report for the year ended 30 June 2015

1. Statement of significant accounting policies

a. Statement of compliance

The preliminary final report has been prepared in accordance with the ASX Listing Rule 4.3A and has been derived from the unaudited consolidated annual financial report. The consolidated annual financial report has been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The consolidated annual financial report also complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

The preliminary final report is presented in Australian dollars and has been prepared on the historical cost basis except for derivative financial instruments, business combinations acquired under revised AASB 3 Business Combinations, intangible assets, trade and other receivables, non-derivative financial liabilities and share-based payment transactions which are stated at their fair value.

The consolidated annual financial report is in the process of being audited and is expected to be made available on 25 August 2015. This preliminary final report does not include all the notes of the type normally included in a consolidated annual financial report. Accordingly, this report should be read in conjunction with any public announcements made by the Company during the year in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

b. Significant accounting policies

The accounting policies applied by the Group in this report are the same as those applied by the Group in its consolidated annual financial report as at and for the year ended 30 June 2014.

c. Estimates

The preparation of this report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

In preparing this report, the significant judgements made by management in applying the Group's accounting policies and the key sources of uncertainty in estimation were the same as those that applied to the consolidated annual financial report for the year ended 30 June 2014.

Measurement of fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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1. Statement of significant accounting policies (continued)

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level of input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values of Deferred Consideration is included below:

Deferred Consideration

The Group has not recognised an amount of \$54,754,000 (30 June 2014: \$52,148,000) of contingent deferred consideration liabilities as payment of these amounts is not considered probable.

During the year ended 30 June 2011, the Group entered into agreements to restructure its deferred consideration liabilities such that substantially all agreements contain caps on the total liability. The time period to calculate the potential capped liabilities has now been completed.

Fair value of future deferred consideration liabilities is estimated based on Group achieving certain EBITDA targets. There is uncertainty around the actual payments that will be made subject to the performance of the Group subsequent to the reporting date versus the targets. Actual future payments may exceed the estimated liability. As the inputs in these valuations are not based on observable market data, this is deemed a Level 3 measurement of fair value.

2. Operating segments

The Group had one operating segment (Operating Brands) based on internal reporting regularly reviewed by the Chief Executive Officer (CEO), who is the Group's chief operating decision maker (CODM).

The operating segment is defined, based on the manner in which service is provided in the geographies operated in and it correlates to the way in which results are reported to the CEO on a monthly basis.

Operating Brands segment includes International and Australian specialised marketing services including public relations, communications planning, strategy, research and data analytics, advertising, direct marketing and stakeholder communications.

The measure of reporting to the CEO is on an Operating EBITDA basis (defined below), which excludes significant and non-operating items which are separately presented because of their nature, size and expected infrequent occurrence and do not reflect the underlying trading of the operations.

Segment results that are reported to the CEO include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

Unallocated items comprise corporate overheads: costs associated with the centralised management and governance of Enero Group Limited, such as interest bearing loans, costs of borrowings and related expenses, and corporate head office assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire assets that are expected to be used for more than one period.

In relation to segment reporting, the following definitions apply to operating segments:

Operating EBITDA: is calculated as net profit excluding net finance income/(costs), income taxes, depreciation, amortisation, loss on disposal of subsidiaries, impairment, commercial settlement and restructuring costs.

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2. Operating segments (continued)

2015 In thousands of AUD	Operating Brands	Total segment	Unallocated	Eliminations	Consolidated
Gross revenue	212,332	212,332	—	—	212,332
Directly attributable cost of sales	(101,985)	(101,985)	—	—	(101,985)
Net revenue	110,347	110,347	—	—	110,347
Other income	206	206	—	—	206
Operating expenses	(94,881)	(94,881)	(6,470)	—	(101,351)
Operating EBITDA	15,672	15,672	(6,470)	—	9,202
Restructure costs	(1,667)	(1,667)	—	—	(1,667)
Loss on disposal of subsidiaries					(2,644)
Depreciation and amortisation expenses					(4,225)
Net finance income					65
Income tax expense					(2,346)
Loss for the period					(1,615)
Goodwill	84,430	84,430	—	—	84,430
Other intangibles	115	115	—	—	115
Assets excluding intangibles	56,595	56,595	32,769	(21,723)	67,641
Total assets	141,140	141,140	32,769	(21,723)	152,186
Liabilities	34,569	34,569	23,822	(21,723)	36,668
Total liabilities	34,569	34,569	23,822	(21,723)	36,668
Amortisation of intangibles	875	875	—	—	875
Depreciation	2,853	2,853	497	—	3,350
Capital expenditure	2,343	2,343	292	—	2,635

* All segments are continuing operations.

Geographical segments

The operating segments are managed on a worldwide basis. However, there are three geographic areas of operation.

Geographical information

In thousands of AUD	Net revenues	2015 Non-current assets	Net revenues	2014 Non-current assets
Australasia	53,392	4,592	60,296	6,235
UK and Europe	44,416	3,217	44,427	3,125
USA	12,539	1,560	14,770	1,226
Unallocated intangibles ⁽ⁱ⁾	—	84,545	—	76,697
Total	110,347	93,914	119,493	87,283

(i) Goodwill and other intangibles are allocated to the Operating Brands segment. However, as the Operating Brands are managed at a global level they cannot be allocated across geographical segments.

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2. Operating segments (continued)

2014 In thousands of AUD	Operating Brands	Total segment	Unallocated	Eliminations	Consolidated
Gross revenue	212,623	212,623	—	—	212,623
Directly attributable cost of sales	(93,130)	(93,130)	—	—	(93,130)
Net revenue	119,493	119,493	—	—	119,493
Other income	378	378	—	—	378
Operating expenses	(103,965)	(103,965)	(6,934)	—	(110,899)
Operating EBITDA	15,906	15,906	(6,934)	—	8,972
Restructure costs	(1,717)	(1,717)	—	—	(1,717)
Commercial settlement					(1,150)
Loss on disposal of subsidiaries					(68)
Depreciation and amortisation expenses					(4,791)
Net finance costs					(44)
Income tax expense					(2,655)
Loss for the period					(1,453)
Goodwill	75,707	75,707	—	—	75,707
Other intangibles	990	990	—	—	990
Assets excluding intangibles	51,974	51,974	18,082	(5,247)	64,809
Total assets	128,671	128,671	18,082	(5,247)	141,506
Liabilities	33,415	33,415	9,833	(5,247)	38,001
Total liabilities	33,415	33,415	9,833	(5,247)	38,001
Amortisation of intangibles	1,532	1,532	—	—	1,532
Depreciation	2,939	2,939	320	—	3,259
Capital expenditure	1,676	1,676	227	—	1,903

* All segments are continuing operations.

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3. Income tax expense

Recognised in the income statement

In thousands of AUD	2015	2014
Current tax expense		
Current year	1,793	2,416
Adjustments for prior years	(168)	(211)
	1,625	2,205
Deferred tax expense		
Origination and reversal of temporary differences	721	450
	721	450
Income tax expense in income statement	2,346	2,655
Numerical reconciliation between tax expense and pre-tax accounting profit		
Loss for the year	(1,615)	(1,453)
Income tax expense	2,346	2,655
Profit excluding income tax	731	1,202
Income tax expense using the Company's domestic tax rate of 30% (2014: 30%)	219	361
Increase in income tax expense due to:		
Accounting amortisation of identifiable intangible assets	244	441
Share-based payment expense	184	305
Tax losses not brought to account	1,515	2,190
Effect of losses on disposal of subsidiaries	793	–
Other non-deductible/(subtraction) items	89	(21)
Decrease in income tax expense due to:		
Effect of losses not previously recognised	(80)	(10)
Effect of lower tax rate on overseas incomes	(206)	(39)
Over provision for tax in previous years	(168)	(211)
Unwinding of deferred tax liability established in business combinations	(244)	(361)
Income tax expense on pre-tax net profit	2,346	2,655

4. Earnings per share

	2015	2014
Profit attributable to ordinary shareholders		
In thousands of AUD		
Loss for the year	(1,615)	(1,453)
Non-controlling interests	(1,172)	(1,459)
Loss for the year attributable to equity holders of the parent	(2,787)	(2,912)
Participative rights that have dilutive effect	–	(135)
Diluted net loss attributable to equity holders of the parent	(2,787)	(3,047)
Weighted average number of ordinary shares		
In thousands of shares		
Weighted average number of ordinary shares – basic	81,917	80,815
Shares issuable under equity-based compensation plans (i)	2,097	1,581
Weighted average number of ordinary shares – diluted	84,014	82,396
Earnings per share		
Basic (AUD cents)	(3.4)	(3.6)
Diluted (AUD cents)	(3.4)	(3.8)

- (i) The weighted average shares outstanding includes the incremental shares that would be issued upon the assumed exercise of share rights if the effect is dilutive. Because the Group had a loss both in the current and prior reporting periods, no potentially dilutive shares were included in the denominator computing diluted loss per shares since the impact on loss per share would be anti-dilutive.

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5. Intangible assets

In thousands of AUD	2015	2014
Goodwill		
At cost	305,956	323,320
Impairment	(221,526)	(247,613)
	84,430	75,707
IT related intellectual property		
At cost	9,094	9,306
Accumulated amortisation	(299)	(511)
Impairment	(8,795)	(8,795)
	—	—
Contracts and customer relationships		
At cost	16,927	16,927
Accumulated amortisation	(16,246)	(15,432)
Impairment	(681)	(681)
	—	814
Internally generated intangible assets		
At cost	3,085	3,085
Accumulated amortisation	(1,287)	(1,226)
Impairment	(1,683)	(1,683)
	115	176
Total intangible assets, net carrying value	84,545	76,697

Goodwill CGU group allocation

The Group has two CGUs, the Operating Brands CGU and the Search Marketing CGU. The entire goodwill balance of \$84,430,000 (2014: \$75,707,000) relates to Operating Brands CGU.

The increase in the goodwill carrying value as compared to the prior reporting period is in relation to the increased Australian dollar translation of foreign currency denominated goodwill.

Impairment tests for cash generating unit (CGU) groups containing goodwill

All the operating businesses are managed as one collective group which forms the Operating Brands segment.

For the purpose of impairment testing, goodwill is allocated to the Group's operating business units that represent the lowest level within the Group at which goodwill is monitored for internal management purposes and synergies obtained by the business unit.

The aggregation of assets in the CGU group continues to be determined using a service offering. The Search Marketing businesses do not form part of the Operating Brands CGU as they do not obtain synergies with the businesses in that CGU. However they are included in the Operating Brands Segment. They have no carrying value.

The recoverable amount of CGU was based on value in use in both the current and prior year. The methodologies and assumptions used for calculating value in use for all of the CGU groups have remained materially consistent with those applied in prior year.

Key assumptions

Key assumptions used in the value in use approach to test for impairment relate to the discount rate and the medium-term and long-term growth rates applied to projected cash flows.

Projected cash flows

The projected first year of cash flows are derived from results for the current financial year adjusted in some cases for expectations of future trading performance to reflect the best estimate of the CGU group's cash flows at the time of this report. Projected cash flows can differ from future actual results of operations and cash flows.

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5. Intangible assets (continued)

Discount rates

The discount rate is based on the Group's pre-tax weighted average cost of capital (WACC) adjusted if necessary to reflect the specific characteristics of each CGU group and to obtain a post-tax discount rate. The discount rate has been adjusted to reflect the current view on the appropriate debt equity ratio and risks inherent in assessing future cash flows.

Growth rates

A compound average growth rate (CAGR) of 2.4% (30 June 2014: 2.4%) has been applied to the cash flows of the first five years of cash flows. The five years of cash flows are discounted to present value. The growth rate is based on analysis of organic growth expectations, historical and industry growth rates. The growth rate also takes into account weighting of international operations of the Group.

Long-term growth rate into perpetuity

Long-term growth rates of 2.5% (30 June 2014: 2.5%) are used into perpetuity, based on expected long-range growth rates for the industry.

Impairment testing key assumptions for Operating Brands CGU

In thousands of AUD	2015	2014
Post-tax discount rate %	10.63	11.45
Pre-tax discount rate %	12.73	13.69
Long-term perpetuity growth rate %	2.50	2.50

Sensitivity assumptions for impairment testing assumptions

As at 30 June 2015, management has identified that for the carrying amount to exceed the recoverable amount the discount rate would need to increase by approximately 2%. A nil growth rate would continue to generate an estimated recoverable amount above the carrying amount.